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POLITICAL SCIENCE QUARTERLY.

THE FINANCIAL RECORD OF THE SECOND CLEVELAND ADMINISTRATION. I.

IT is a maxim of politics that the administration in power during a period of hard times goes down to history with a heavy charge against it. For this there are several causes. Industrial distress, in the first place, is a sure breeder of both social and political unrest. Under a despotism such unrest finds voice in insurrection; with suffrage in the hands of the people, a change of administration is demanded. In neither case is it essential that adopted public policies shall be proved to have been influential in the trade disturbance; it is not even necessary that the plans of the existing government shall have passed into law. It is enough that the administration and the unfavorable times are coexistent; the *post hoc* argument is nowhere used with such assurance and success as on the stump. Certain legislation has been enacted or proposed; a period of financial distress has followed — the average citizen reasons no further.

If such reasoning involved as a consequence only the expression of contemporary criticism, government would pursue its course and intelligent history would straighten the matter out. But the success of an administration depends on the support of a united party; and such support depends in turn on popular endorsement at the polls. This is supposed to be peculiarly true of the British governmental system, where the administration holds office so long as it commands majorities, and no longer. In point of fact, however, the net result of the Ameri-

can system is substantially the same. The president and his cabinet do not, indeed, on the development of hostile legislative and popular majorities, directly surrender office to the opposition. Nominally, they hold power until their term is ended. But with the disappearance of their party's majority in Congress, or — worse than this — with disintegration and revolt within that party, the policies of an administration are distinctly blocked. Constructive legislation becomes at once impracticable; even remedial legislation is obtained only by favorable chance. An administration high in favor with the people finds willing adjutants on the floor of Congress; but when a president has lost his hold upon the public, his recognized Congressional supporters may be counted on the fingers of one hand. Every administration that has passed through a period of hard times has had to face this experience. So far from reckoning on loyal support for administration measures, the president at such a time has to devote his influence and authority chiefly to curbing the excesses of his party. The more severe the pressure of industrial distress, the more urgent, in many sections of the country, grows the demand for radical legislation. The whole administrative term becomes a chapter of blind moves and checkmates; there is no coherent policy; eventually and inevitably the party which the administration nominally represents is hurled out of power by a large adverse majority at the polls. To those who read from the surface only, the work of such an administration seems to be a humiliating failure; its promises stand unredeemed, and it retires from office with the seal of uncompromising public disapproval.

In this general sketch it is not difficult to read the story of the late administration. What people are apt to forget, however, is that the picture equally portrays every administration unfortunate enough to have fallen upon a similar financial period. To this day the very able and conservative Van Buren administration is commonly regarded as a failure; and so it was, if distinct executive achievement is the test. But the panic of 1837, like the panic of 1893, burst on the country two months after inauguration day. On March 4, Van Buren entered office;

on May 10, the first great bank failure in New York occurred; thenceforward public affairs consisted largely in repeated deadlocks between an unpopular executive and a discontented Congress. In the fall of 1837 the great pivotal states, which a year before had given the Democratic Party 170 electoral votes against 73 for the leading opposition party, went overwhelmingly against the administration. When Van Buren in 1840 stood for reelection, 234 electoral votes out of a total of 294 were cast against him. Precisely similar results followed the panic of 1857. The industrial unrest was then so completely overshadowed by the crisis of secession that it is hard for history to trace its influence; yet it is altogether reasonable to suppose, in the light of political experience, that the bank suspensions in the fall of 1857, the fifty-cent decline in wheat during the next six months and the seven-cent fall in cotton, with the virtual state of barter to which interior communities were reduced, played a part in the overwhelming anti-administration majorities of 1858 which was second only to that played by the Kansas-Nebraska scandal. These commercial incidents alone would have created, in 1858 and 1860, majorities for the Republican opposition; political outrage only emphasized the situation. The pro-slavery clique controlling the Buchanan administration knew perfectly well what was before their party. As history sufficiently attests, it was the certainty of defeat in the coming national campaign of 1860 which brought to a head the demand for disunion.

In 1872 — to come down now to recent times — the Republican presidential ticket was elected by a popular plurality of 763,007, with a new House of Representatives Republican by a clear majority of 105. Hard times began, however, with the collapse of November, 1873; and the Congressional elections of 1874 so completely overturned the huge Republican majority as to give control of the House to the opposition party by a majority of 67. Strife and repeated deadlocks ensued as usual between the executive and Congress, and within the ranks of the administration party; and in the presidential vote of 1876, although the Republican candidate was counted in, the 763,007

plurality of 1872 was changed to a Democratic popular plurality of 252,224.

These illustrations from our own history are useful as proving unmistakably that an administration unlucky enough to enter office on the eve of financial trouble is a victim of circumstances beyond its own control. Nor is this rule by any means restricted to American politics. The industrial distress beginning in 1873 reversed party majorities in England exactly as it reversed them in the United States. The famous Gladstone ministry, which had for six successive years held almost unprecedented power over Parliament and the people, entered then on six months of party disintegration, followed, in the general elections of 1874, by overwhelming political defeat. After the London panic of 1866, three British ministries were successively overthrown within the compass of three years; and exactly similar results followed the hard times of both 1857 and 1884. At the very time when the second Cleveland administration was confronted with a disloyal party and with adverse popular majorities, a British ministry was losing all semblance of control in Parliament. In the middle of 1895 the opposition was at length returned with one of the largest majorities in Parliamentary history. When, indeed, it is capable of proof that nearly every great popular insurrection against established government—for example, the revolt of the British Commons in 1642,¹ the French Revolution of 1789² and the general European uprising in 1848³—has been brought to an immediate head by the pressure of hard times, the troubles of Mr. Cleveland's second administration will be recognized as only a later illustration of perhaps the most familiar phenomenon in history.

An administration which goes out of office, after such an experience, with all its public undertakings acknowledged failures, has an excuse which history at least must recognize. An administration which achieves under these circumstances any

¹ Thorold Rogers, *Economic Interpretation of History*, p. 266.

² Taine, *La Révolution*, ch. i, pt. i.

³ Juglar, *Crises Commerciales*, Introduction, 2d ed., p. xvii.

distinct and permanent public policy has accomplished a marvel in parliamentary government. It is precisely this remarkable achievement which history will place to President Cleveland's credit. The late administration had indeed to labor under a double handicap. Disordered private trade will of itself, as we have seen, obstruct the path of any government; but disordered public credit and an embarrassed exchequer bring governments close to the bounds of anarchy. Both of these formidable evils confronted Mr. Cleveland when he entered office. Before proceeding further, it will be useful to show exactly how much of this treasury demoralization was inherited from the preceding administration.

Prior to 1890 the national revenue had largely exceeded annual expenditures. In the first place, the productiveness of import duties under the tariff act of 1883 had exceeded all expectations; between 1885 and 1890 the annual customs revenue increased \$48,000,000.¹ At the same time a second and equally important factor had been at work in the shape of decreased annual expenditures. Pension and miscellaneous appropriations had, it is true, been rising with the automatic rise in revenue; but so large had been the simultaneous redemption of the government's funded debt that the annual interest charges, which in the fiscal year 1879 were \$105,327,949, and in 1882 were \$71,077,206, had fallen in 1890 to only \$36,099,284.² In these two sets of figures lies the key to what many people still regard as mystery, — the fact that the government's annual surplus revenue rose from \$63,463,771 in 1885 to \$119,612,116 in 1888, and that in spite of lavish expenditure for bond redemptions, the treasury seemed, in 1888, to be rapidly absorbing into its own vaults the entire circulating medium of the nation.

¹ The total customs revenue for the fiscal year 1885 was \$181,471,939; for the fiscal year 1890 it was \$229,668,584, the maximum in the country's history. The value of dutiable imports entered at our custom houses for consumption was in 1885 \$386,667,820, in 1890 \$507,571,764. — Report of United States Bureau of Statistics, 1892, p. lxxvii. The average rate of duty annually collected within this period ranged from 44.41 per cent to 47.10.

² See the comparative classified table of the annual governmental expenditures appended to the annual reports of the secretaries of the treasury.

This process of absorption had its good side and its bad side. Contraction of the currency, through the heaping up in the treasury, by August, 1888, of \$330,763,985 idle money, undoubtedly prevented the worst effects of compulsory silver coinage. In 1884 the annual charging of the currency with \$24,000,000 overvalued silver dollars threatened the treasury with serious disaster;¹ four years later this was apparently a factor of little moment.² On the other hand, no business man could look with equanimity on a system which removed each year from the circulating medium, with the regularity of an automaton, some fifty million dollars. When such accumulations result from the sale of government bonds, the new bonds, used as a basis for national bank currency, provide the means of filling any actual void in circulation. But in 1888 and 1889 precisely opposite results were witnessed. The overflowing treasury reserve was thrown back on the markets through redemption, at a heavy premium and by public purchase, of the very bonds used as collateral for existing bank-note issues. Between July 1, 1888, and July 1, 1890, during which period the government was rapidly calling in its debt, the treasury's total surplus did indeed decrease \$63,174,373.³ But the total bank-note circulation simultaneously decreased \$66,397,546.⁴ In other words, the aggregate circulating medium actually lost by the operation.

These facts were imperfectly appreciated by the public men of 1890. Most unfortunately, the whole matter was complicated by domestic politics of the narrowest sort. Platform declarations and campaign speeches had pledged the dominating party

¹ Secretary McCulloch, *Annual Treasury Report*, 1884, p. xxxi. See also the pessimistic letter of John Sherman to President-elect Garfield, July, 1880. — *Recollections of John Sherman*, II, 779.

² "The ownership of silver by the government again was largely decreased, in spite of the increase of total stock of the silver dollars in the country by the coinage of sixteen months." — Secretary Fairchild, *Annual Treasury Report*, 1888, p. xxix.

³ The total treasury holdings in excess of certificates outstanding were June 30, 1888, \$319,067,278; June 30, 1890, \$255,892,905. — *Annual comparative tables, United States Treasury Reports*.

⁴ Total national bank notes outstanding June 30, 1888, \$252,368,321; June 30, 1890, \$185,970,775.

to a revenue system which, designed primarily for protection, could by no possibility be estimated in advance. Legislative precedent had riveted the practice of voting appropriations without the slightest reference to the probable income of the year. Tradition had so imbued the people's mind with dread of bank-note issues not secured by government collateral, that the adoption of a rational banking system was not even discussed. Such a situation, with the business community demanding instant relief, resulted exactly as might have been anticipated. On Sept. 30, 1890, Congress adopted, strictly by vote of the administration party, an "act to reduce the revenue." This act levied on the majority of articles heavily increased tariff duties, with the avowed purpose of cutting down dutiable importations. But it also removed the greatest but one of all the revenue-producing taxes, the sugar tariff; and with this single blow struck off \$55,000,000 annual revenue.¹ Without bringing into question the wisdom of the general purpose of this act of 1890, the law may properly be described as an utterly haphazard and unscientific measure. Certainly, few laws have ever more thoroughly belied in actual results the predictions of their authors. The framers of the bill named \$43,000,000 as the outside limit of resultant revenue reduction;² in actual fact, it cut down annual income long before the disturbances of 1893 by no less a sum than \$52,205,620.³

¹ In the fiscal year 1889, duties collected on sugar and molasses amounted to \$55,976,228; in 1890 to \$55,150,819; in 1891 (the old tariff applying during part of the year) they were \$32,468,339; in 1892 only \$76,987; in 1893 only \$165,196; and in 1894 only \$251,039. — United States Statistical Abstract for 1896, p. 16. Of course the most productive tax on any article, even in 1890, was the internal revenue tax on spirits.

² Senator Aldrich, who had charge of the measure in the Senate, said immediately before the final vote: "I now estimate the aggregate annual reduction, made by the bill as reported by the conference committee, at from forty-two to forty-three millions of dollars." — *Congressional Record*, Sept. 30, 1890.

³ Following are the figures:

Fiscal year.	Total imports for consumption.	Of which dutiable.	Amount duty collected.
1890	\$773,674,812	\$507,571,764	\$226,540,037
1891	854,519,577	466,455,173	216,885,701
1892	813,601,345	355,526,741	174,124,270

— Bureau of Statistics, Annual Report, 1892, p. lxxvii.

This of itself was a violent move, especially when all experience had taught that, if a trade reaction were to come with the tariff law unchanged, an even larger reduction, both in importations and in resultant customs revenue, would be inevitable.¹ Had Congress, however, stopped with the reduction in the revenue, its measures would at least have been defensible. But the notion had got abroad that, since the surplus was of itself an evil, Congress was justified in using any means available to scatter it. Accordingly the Congress of 1890 went to work expanding by wholesale its annual appropriations — an easy task in any legislature. Between 1889 and 1893 annual pension expenditures increased \$71,732,778; annual miscellaneous disbursements (including river and harbor appropriations), \$23,068,735; and war, navy and civil outlay in such proportion as to increase the annual expenditure by the enormous sum of \$115,218,431.² In 1889, before the annual sinking-fund requirement had been met, the surplus revenue was \$105,053,443.³ Increased expenditures alone, as already noted for the fiscal year 1893, would have used up this annual surplus, even supposing the revenue to stand unchanged.

But, as we have already seen, the annual revenue also was cut down some \$52,000,000 in the very face of the increase in appropriations. It is not surprising, therefore, that in 1892, under the same administration, the secretary of the treasury should have begun complaining that the surplus revenue was no longer large enough to meet the annual sinking-fund requirement.⁴ Nor is it matter for wonder that on March 1, 1893, immediately before the Cleveland administration entered office, the government reported only \$130,262,414 available surplus in the treasury, or barely \$30,000,000 over the stipulated gold

¹ Recollections of John Sherman, II, 1006.

² These are the actual figures:

Fiscal year.	Expenditures for		
	Pensions.	Miscellaneous.	Total.
1889	\$87,624,779	\$80,664,064	\$240,995,131
1893	159,357,557	103,732,789	356,213,562

³ Secretary Windom, Annual Treasury Report, 1889, p. xxii.

⁴ Secretary Foster, Annual Treasury Report, 1892, p. xxvii.

reserve.¹ During the next nine months of 1893, with the revenue act of the Fifty-first Congress and the appropriation laws of the Fifty-second still in force, the revenue fell \$38,600,000 short of current expenditure.² It is a simple matter of arithmetic to show that at the opening of the new administration the trenching on the \$100,000,000 gold reserve maintained against outstanding legal tenders was an impending certainty.

Secretary Sherman has declared in a published article, written to explain the breakdown of the treasury finances during 1893, that

the deficiency of revenue was the primary cause of the demand for gold for United States notes; [and he adds] nor would deficiencies have occurred had not the president and both houses of the Fifty-third Congress, then in political sympathy, united in passing a law reducing the revenue below expenditures for the first time since the close of the war.³

This statement sums up an opinion very generally held by people less competent than Mr. Sherman to analyze the facts. It ought to be answered very decidedly, because it is a most extraordinary perversion of the truth of history. The Fifty-third Congress began its work on Aug. 7, 1893. Its first appropriation bills, outside of some small deficiency legislation, were passed in July and August, 1894, and they affected only the operations of the fiscal year beginning July 1, 1894.⁴ Its first revenue bill, the Wilson Tariff Act, became a law Aug. 13, 1894,⁵ and went into actual effect between then and the following January.

In other words, the revenue laws and the appropriation laws of the preceding administration were in full force until mid-summer, 1894. Yet the annual treasury report for the year ending June 30, 1894 — and ending, therefore, nearly two months before the Wilson law went into operation — reported

¹ Annual Treasury Reports, comparative tables.

² Annual Treasury Reports, 1893, p. 26; 1894, p. 22.

³ "Deficiency of Revenue the Cause of Financial Ills," by John Sherman, *Forum* for April, 1896, pp. 133, 139.

⁴ *Tribune Almanac* for 1895, pp. 22, 36.

⁵ *Ibid.*, p. 34.

a deficit of \$69,803,260.¹ The monthly deficit, in fact, was largest in the quarter ending Sept. 30, 1893² — a period nearly three months prior even to the introduction of the Wilson bill in Congress.³ Six months before the president and Congress, as Mr. Sherman intimates, had “united in passing a law reducing the revenue below expenditures,” a bond issue had already been forced to protect both gold reserve and treasury surplus from absolute exhaustion.⁴ Whatever mischief the Fifty-third Congress may have done later on — and it has a sufficient reckoning to meet — impartial history will not hold it responsible for the breakdown of the treasury. We have already seen at whose door that discreditable episode in finance must lie. Mr. Sherman’s imputation is directly contradicted by the facts.

As between the two political parties, responsibility for this stupid and mischievous financiering must be divided. If the Republican House of 1890 and 1891 set the pace for reckless appropriations, the Democratic House of 1892 and the spring of 1893 maintained it. The same may be said of the silver-purchase act of July 14, 1890, which was thrown as a sop to free-silver coinage advocates of varying political connections. But both the revenue law and the silver-purchase law were fathered and advocated by the administration of 1890;⁵ for the ill effects of both, therefore, impartial history must hold responsible the administration which endorsed them. In particular, the silver-purchase act, throwing out annually \$50,000,-

¹ Secretary Carlisle, Annual Treasury Report, 1894, p. xxv.

² Excess of expenditure over revenue during the three months ending Sept. 30, 1893, was \$17,560,072. — Annual Treasury Report, 1894, p. 22.

³ The bill was reported by Mr. Wilson, Dec. 19, 1893. — McPherson’s Handbook of Politics, for 1894, p. 182.

⁴ On Jan. 31, 1894, not only was the gold reserve \$34,000,000 below the legal requirement, but the treasury’s additional balance of silver and legal-tender notes was only \$12,262,708. The revenue deficit during the next three months was \$18,332,000.

⁵ Secretary Windom, Annual Treasury Reports, 1889 and 1890; President Harrison, Annual Message to Congress, Dec. 3, 1889. It is fair to say that the special message on the silver-purchase plan, promised in this first annual message of Mr. Harrison, was never submitted. On the other hand, as regards the president’s attitude, see Senator Sherman’s remarkable admission in *Recollections of John Sherman*, II, 1070.

ooo fresh demand liabilities of the government¹ at the moment when that government's available assets were contracting at an exceedingly dangerous rate,² was a financial measure of such utter recklessness that no catastrophe which followed ought to have seemed mysterious. The total circulation of these notes was at its largest when, as we have seen, even the treasury reserve maintained against the original legal-tenders had for the first time fallen below its legal minimum.³ Months before the election of 1892, conservative foreign critics were pointing out the certain consequence of this reckless financiering.⁴

With the Cleveland administration, as with Van Buren's in 1837, the long-predicted crisis developed almost in the inauguration week. No intelligent person supposes that the trade collapse was caused by the party change in government; such theories are made for children, stump speakers, and people whose reasoning powers are bounded by their prejudices. Nor

¹ Treasury notes, issued in purchase of bullion, held in the treasury and in outside circulation :

	In treasury.	Outside circulation.	Total.
July 1, 1891	\$9,879,713	\$40,348,704	\$50,228,417
July 1, 1892	3,453,379	98,258,692	101,712,071
July 1, 1893	6,334,613	140,855,614	147,190,227

— Annual Treasury Report, 1893, p. cxiv.

² Amount of gold coin, silver dollars and legal-tender notes in the treasury in excess of certificates outstanding :

	Gold.	Silver.	Legal tenders.	Total.
July 1, 1890	\$190,232,405	\$26,699,317	\$11,804,190	\$228,735,912
July 1, 1891	117,667,723	22,112,714	11,366,996	151,147,433
July 1, 1892	114,342,367	5,265,528	8,696,590	128,304,485
July 1, 1893	95,485,414	6,797,135	20,398,866	122,681,415

³ On June 30, 1893, legal-tender notes in circulation outside the treasury aggregated \$471,630,040, against \$334,688,977 on June 30, 1890. The treasury's total gold holdings in excess of gold certificates outstanding was \$95,485,414 on June 30, 1893, against \$190,232,405 in 1890. — Annual Treasury Report, 1893, pp. cxv, 96.

⁴ "It [the United States Treasury] is likely before long to become involved in serious difficulties. Its reserve is approaching the 'apprehension point'; the point, that is, at which people will begin to fear that its stock of gold will not be sufficient to meet the demands that may be made upon it, and will be disposed to make a rush to convert their notes, lest, if they delay, conversion will be impossible." — *London Economist*, July 9, 1892. See also the *Economist* of Feb. 20, 1892.

did the panic of 1893 result wholly from the legislation of the Fifty-first Congress. As we can now in retrospect discover plainly, a season of trade reaction was already drawing near and would probably have been encountered even with wise and prudent laws upon the statute-books. But it is the terrible responsibility of that Congress that it blindly and recklessly crippled the treasury's resources, and left it helpless before the storm. It was the revenue and appropriation laws of the Harrison administration which brought the government, when the blight of panic fell upon the nation's trade, to the verge of bankruptcy. It was the currency law of that administration which wrecked the credit of the treasury at a moment when the stability of the Bank of England was needed to resist the shock. He who denies these two conclusions, in the light of the evidence which I have submitted, must be either blinded by partisanship or incapable of economic reasoning.

At the close of 1892 the trade movement itself was bringing matters to a head. Our markets were out of joint with the markets of the world. The export trade of the United States fell, during the nine months ending March 31, 1893, \$163,430,018 below that of the year preceding. This decrease resulted measurably from the smaller grain harvest in the United States and larger crops abroad. But no such explanation applied to the import trade. While exports decreased, imports rose in the same period by the enormous sum of \$90,572,354. During the nine months ending March 31, 1892, exports had exceeded imports by \$209,383,096; in the last nine months of the Harrison administration imports were in excess by \$47,119,276.¹ This was a record unprecedented since the days of irredeemable paper money. To offset the foreign debits thus incurred, there was no longer any westward flow of European capital. With the treasury approaching certain embarrassment and the currency threatened with depreciation, invested capital was withdrawing in enormous volume from our markets. Europe not only sold American securities, but recalled its floating capital invested in our open money markets. To make the settlement for this

¹ Bureau of Statistics, monthly Foreign Commerce Report for March, 1893.

increasing heap of immediate liabilities, there was nothing left but gold. During these same nine months \$34,943,431 in gold was sent abroad;¹ by the middle of April upwards of \$5,000,000 weekly was going out. Nearly all this export gold was obtained from the sub-treasury through presentation of legal-tenders for redemption; the city banks, ten months before, had been compelled to cease supplying gold to banking depositors.² As a result, the treasury gold reserve, on April 23, declined to \$95,432,000.³

When the government's gold balance fell below the \$100,000,000 mark fixed by tradition and authority,⁴ a very serious problem arose for settlement. It was largely treasury notes, issued under the law of 1890, which had been presented for redemption.⁵ The law provided that

upon demand of the holder of any of the treasury notes herein provided for, the secretary of the treasury shall . . . redeem such notes in gold or silver coin, at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such ratio as may be provided by law.⁶

This clause appears at first glance to be a hodge-podge compromise, and such in fact it was. Secretary Windom, who is entitled to more of the discredit of the law of 1890 than is commonly assigned to him, wished to have even the uncoined bullion used in redemption of the notes.⁷ In the House, this extraordinary suggestion had been promptly brushed aside by a substitute measure, under which the new treasury notes, like the older legal-tenders, were made redeemable "on demand, in coin."⁸ The Senate cancelled all the essential provisions

¹ Bureau of Statistics, monthly Foreign Commerce Report for March, 1893.

² See *POLITICAL SCIENCE QUARTERLY*, X, 587.

³ Daily tables of cash balances, United States Treasury.

⁴ See *POLITICAL SCIENCE QUARTERLY*, X, 576.

⁵ During the three months ending March 31, 1893, gold paid out from the treasury in redemption of old United States notes was \$13,812,348; in redemption of treasury notes of 1890, \$16,439,386. — Annual Treasury Report, 1893, p. 12.

⁶ Act of July 14, 1890, section 2.

⁷ Annual Treasury Reports, 1889, p. lxxiv; 1890, p. xlvii.

⁸ Conger substitute, House of Representatives, June 5, 1890.

of the House bill, and substituted a flat free-coinage measure.¹ The House, in turn, rejected every amendment of the Senate.² The bill as next patched up by the conference committee endeavored to fix on middle ground. It did so in the curious clause already cited.

Judged simply by the successive votes upon the measure, this game of legislative shuttlecock gave little clew to the actual purpose of the bill. More than one speaker, in the debate upon the conference measure, declared that he could understand neither its meaning nor its probable consequences.³ It is, however, very important to observe that in the course of this debate not one Congressman expressed belief that in an emergency the treasury would refuse to pay out gold to note-holders who demanded it. Many of the debaters argued comfortably that the time would never come when the secretary would be forced to make his choice.⁴ Others contended that the law would so advance the price of silver that the note-holder would always be willing to accept that metal in redemption.⁵ Both these predictions proved to be totally erroneous. But, on the other hand, it was argued that if occasion for discrimination were by any possibility to arise, the note-holder must be paid whichever metal he desired; for otherwise the pledge of the parity clause would be violated.⁶ No speaker openly denied this affirmation; on the contrary, the ultra free-coinage advocates opposed the measure on the explicit ground that the notes would always be redeemed in gold.⁷ There was, it is true, much hesitation in subsequent official statements on the matter. Seventeen months after the passage of the act, the Republican treasurer of the United States declared that "the exact status

¹ Passed June 17, by a vote of 42 to 25.

² June 25, by a vote of 152 to 135.

³ "A beckoning hand for an interpreter," was Senator Daniel's description of the parity clause. — Speech of July 9, 1890.

⁴ Senator McPherson. — Speech of July 9.

⁵ Senator Jones. — Speech of July 8.

⁶ Senator McPherson. — Speech of July 9.

⁷ Senator Cockrell said: "This compromise here is an abandonment, a total abandonment, of the double standard." — Speech of July 9. He predicted that gold would always be used to redeem the notes, and on that ground opposed the bill.

of the notes has yet to be settled. . . . The new notes will doubtless, in time, be regarded as a loan, secured by a full deposit of silver dollars or bullion."¹ But this is an interpretation which needs itself to be interpreted. Security for a loan is commonly regarded as that which is left in the lender's hands when the borrower defaults; but the actual question here was to decide in what this borrower should pay his debt in order to avoid default. In gold or silver at his own discretion, said one part of the act; and since the law of 1890 provided further for the coinage of enough of the purchased silver to redeem the notes,² the treasury was urged to use its option and to proclaim that gold would no longer be paid in redemption.

This was a tempting proposition. In the face of all the impending troubles of the treasury, the government held in its vaults, on April 1, 1893, \$106,709,122 worth of silver bullion.³ If this bullion were to be coined and offered to applicants for redemption of the notes of 1890, the gold reserve would thenceforth be depleted only by the redemption of the older legal-tenders, which, as we have seen, had thus far made up less than one-half of the total government notes presented for redemption.⁴ For three days during April, 1893, when the gold reserve had fallen below the hundred-million mark, it was believed at Washington and on the markets that Secretary Carlisle would use the option of the government in tendering silver coin alone for the notes of 1890.⁵ The president, how-

Senator Call agreed that "in all these provisions the gold redemption is asserted and is made the essential and the unqualified and the operative and the valuable condition of the bill."—Speech of July 10. These two speakers were free-silver-coinage men. Their view was not directly combated by any of the numerous other debaters. It is also significant that the two strongest silver men on the conference committee, Messrs. Bland and Harris, refused to sign the conference report.

¹ Treasurer Nebeker, Annual Treasury Report, 1891, p. 19.

² "After that time [July 1, 1891], he [the secretary of the treasury] shall coin of the silver bullion purchased under the provisions of this act as much as may be necessary to provide for the redemption of the treasury notes herein provided for."—Act of July 14, 1890, section 3.

³ Annual Treasury Report, 1893, p. 90. This was the cost price; its coinage value was considerably larger.

⁴ See note, p. 35.

⁵ See market reports, daily papers of the time; also *New York Financial Chronicle*, April 22, 1893, p. 644.

ever, took ground decidedly against this policy. On April 20 Secretary Carlisle declared officially that

in the exercise of the discretionary power conferred upon the secretary of the treasury by the act of July 14, 1890, he has been paying gold for the coin treasury notes issued for the purchase of silver bullion, and he will continue to do so as long as he has gold lawfully available for that purpose.

On April 23 President Cleveland added an equally decided statement, defining the administration's policy as follows :

While the law of 1890, forcing the purchase of a fixed amount of silver every month, provides that the secretary of the treasury, in his discretion, may redeem in either gold or silver the treasury notes given in payment of silver purchases, yet the declaration of the policy of the government to maintain the parity between the two metals seems so clearly to regulate this discretion as to dictate their redemption in gold.

This very important precedent must be regarded as President Cleveland's personal decision. In his public statement of April 23 the president did indeed add his

emphatic contradiction of the statement that the redemption of any kind of treasury notes, except in gold, has at any time been determined upon or contemplated by the secretary of the treasury or any other member of the present administration.

This statement does not, however, affirm that there was in the cabinet no one who had in general favored redemption in silver coin. As a matter of fact, there is sufficient authority for saying that more than one member of the administration had previously advocated, as a feasible resort, the silver-redemption policy. What the personal feeling of the secretary of the treasury was, before the decisive cabinet conference, will doubtless remain a matter of controversial history. Acting alone, it is very possible that he would have tendered silver. Mr. Carlisle's state papers, since the crucial episode of April, 1893, have contained the clearest and most cogent reasoning for the single standard of financial values. That his convictions on the question were sincere and thorough does not, I think, admit of doubt. But the problem of the treasury-note

redemption was not as simple as the general question of the standard. Mr. Carlisle's opinions in the past, moreover, subject though they might be to honest reconsideration, undoubtedly predisposed him to the use of silver for the notes of 1890. He voted, as a representative, against the Resumption Act of 1875; as a senator, he voted in favor of the Plumb free-coinage substitute for the silver-purchase bill of 1890. His own declaration of April 20, 1893, was framed, so far as concerned the statement of his previous belief, in very guarded language; and in his annual report of December, 1893, he made no explicit reference to the question.

The decision, however, was in the president's hands. In Jackson's administration, the treasury was regarded as responsible for its acts, not to the president, but to Congress; a secretary of the treasury like McLane or Duane was therefore accustomed to shape his course of action even against the wishes of the president. Opposition by the president to the secretary's policy, or his effort to control it, drew forth in those days Congressional philippics such as Webster's famous speech of May 7, 1834.¹ That theory of the treasury's independence of the president has, however, been entirely abandoned. Now the secretary of the treasury is as much the agent and subordinate of the chief executive as is the secretary of state or the secretary of the interior; and both Congress and the people have acquiesced in the new conception of the office. Entirely aside from this phase of the situation, however, Mr. Cleveland's position was unquestionably right. As we have already seen, the free-coinage senators themselves, in the debate of 1890, declared that adherence to gold payments would be the necessary outcome of the act. This was, in fact, the burden of the whole Congressional discussion of July, 1890; it cannot, therefore, be contended that the president in 1893 applied a new construction. On the contrary, he construed the law as it had been construed even by the Congress which enacted it. That the free-coinage Congressmen opposed the law in 1890 because of such construction, confirms rather than contradicts the

¹ Works of Daniel Webster (ed. of 1872), IV, 105, 106.

president's interpretation; the law was passed in the face of their publicly expressed predictions.

There was a third alternative suggested, to which some notice may be granted. Mr. Sherman has taken the position, both before and since the events of 1893, that when the resumption fund is drawn upon by presentation of legal-tenders for redemption, the legal-tenders thus redeemed ought to be added to that fund, and ought not to be reissued until the legal reserve is again intact. In 1879, Mr. Sherman, then secretary of the treasury, suggested that the notes thus redeemed should even be used "under the authority of section 3700, Revised Statutes, . . . for purchase of coin or bullion."¹ More recently, he has criticised the Cleveland administration for using "a fund specially pledged for another purpose to meet current liabilities."² But for this action, said he, "notes once redeemed" would be reissued "only for gold coin, . . . and the scarcity of currency would create such a demand for it that coin would be freely deposited in exchange."³

There cannot be the slightest question that this is the proper means of managing a reserve against outstanding notes. Every successful bank of issue in the world follows the practice, and the United States government, under existing laws, is one of these banks of issue. But proof that this is a scientific policy does not involve the corollary that such course of action would be legal. Had the treasury's total surplus been as large in 1893 as it was in 1889, Secretary Sherman's plan would undoubtedly have been adopted. But in 1893 the surplus was so small, and the government's monthly deficit so large, that refusal to reissue legal-tender notes redeemed would presently have left the government without the means of paying current liabilities. On June 30, 1893, the total surplus in the treasury, outside of fractional silver coin, was \$126,664,048.⁴ If, therefore, the notes redeemed by use of the \$100,000,000 gold reserve were to be consistently locked up from subsequent disbursement, the

¹ Annual Treasury Report for 1879, p. x; for 1880, p. xiii.

² *Forum*, April, 1896, p. 140.

³ *Ibid.*

⁴ Annual Treasury Reports, comparative tables.

surplus available for ordinary uses was less than \$27,000,000. But in the next six months the excess of regular governmental disbursement over income was no less than \$37,453,261.¹ It is therefore clear that, had the notes redeemed been thus withheld, the treasury, before the close of 1893, must have defaulted on its ordinary obligations.

Mr. Sherman has suggested, in addition, that the administration might define certain appropriations to be not "mandatory," and might thereupon, under the circumstances, refuse to meet them.² But for such a recourse there is neither precedent nor authority. Mr. Sherman appeals for precedent to the suspension, after the panic of 1873, of annual payments on the sinking fund.³ He does not, however, notice that when, in 1892, Secretary Foster again, and from the same motive of deficient revenue, suspended sinking-fund purchases, he carefully based his action, not on the fact that the payments were not mandatory, but on the plea that previous bond redemptions in excess of statutory requirements had constructively anticipated charges on that account against the current year.⁴ For Secretary Bristow's similar policy, during 1874, the same defense existed. No such apology could be advanced for suspending payment on other Congressional appropriations. Whatever the abstract propriety of such a move, it would have been a *tour de force* of the most unusual character. The older legal-tenders were subject to the provisions of the law of 1878, which declared that "when any of said notes may be redeemed . . . they shall not be retired, cancelled or destroyed, but they shall be reissued and paid out again and kept in circulation." The law of 1890 made similar provision, declaring that the treasury notes "when so redeemed may be reissued." Even Mr. Sherman, in his suggestions of 1879 and 1896, though he began by claiming this existing power for the treasury, ended, somewhat lamely, by complaining that Congress had not authorized such policy.⁵

¹ Annual Treasury Report for 1894, p. 22.

² *Forum*, April, 1896, p. 130.

³ Recollections of John Sherman, II, 1006.

⁴ Annual Treasury Report, 1892, p. xxvii.

⁵ "Congress neglected to cure the defects pointed out by me as secretary of the treasury in December, 1880, but I hope will correct them now. . . . With such

The panic which had broken out in the financial markets on the first reports of possible silver payments was for a time allayed by the president's declaration. Since this report, however, was only an incident in the general disorder and not a primal cause, the long-foreshadowed crisis continued to approach its culmination. The first act of the new administration was to summon Congress in extra session for the 7th of August, 1893. Before this extra session met, the country's whole financial structure had collapsed. In May, the panic struck New York with its full force; in June, dozens of interior banking and commercial institutions were going down, crippled by their excessive engagements on securities, grain and real estate;¹ in July, symptoms of general wreck were visible. Every market had fallen into chaos; the New York banks had suspended cash payments and had issued \$38,280,000 clearing-house certificates; money was being hoarded by the millions; currency of all kinds exchanged for bank checks at a premium of four per cent;² during at least one week, universal bankruptcy seemed inevitable. In the face of such a situation, Congress met, and the president sent a very decided special message, urging repeal of the silver-purchase act of 1890. The essential points of this message may be summed up briefly. The law of 1890 had failed to meet the hopes of its advocates by raising the market price of silver. Its "parity clause" required redemption of the notes in gold if demanded by the holder; the notes were pressing for redemption, and the constant additions to the notes in circulation under the terms of the silver-purchase act threatened continuous depletion of the gold reserve. The seeming imminence of a depreciated silver standard had already wrecked both public and private credit, and such a standard could not be avoided unless the \$50,000,000 annual addition to the supply of notes should cease.

The president was not alone in this conclusion. Secretary Sherman, whose ill-fortune it had been to see his own name traditions in the law, the resumption fund could not be invaded to meet deficiencies in the revenue." — *Forum*, p. 140.

¹ *Dun's Review*, Dec. 30, 1893, p. 3.

² See POLITICAL SCIENCE QUARTERLY, IX, 26-28.

tionally attached to the law of 1890, has since declared: "From the date of the passage of that law to its final repeal, I was opposed to this compulsory clause."¹ Mr. Sherman had in fact himself introduced, in July, 1892, a bill for the repeal of the act of 1890, framed substantially in the terms of the repeal act of 1893.² Many Republican Congressmen of influence had taken a similar position. But the situation in the Fifty-third Congress was peculiar. I have referred already to the disintegration which inevitably sets to work, in the ranks of an administration party, at times of trade distress. This principle was visibly in operation, even before the extra session began in August. When Congress opened, and the president's special message was submitted, the storm broke almost instantly. The Democratic Party, as defined by the electoral vote of 1892, was made up of the most heterogeneous elements. No less than eight Democratic state conventions of that year had declared explicitly in favor of the free and unlimited coinage of silver dollars;³ five others had made more cautious declarations whose actual purport was the same;⁴ three had flatly repudiated the sound-money plank in the national party platform.⁵ It was, therefore, to be expected that these states would demand a free-coinage bill as the price for repealing the act of 1890, and exactly this occurred. The whole situation was extraordinary enough to foreshadow the open party split of 1896. On the other hand, several Democratic state conventions had denounced emphatically the silver-purchase law, and had demanded its repeal; the same declaration was unconditionally made in the national Democratic platform of June 22.⁶

The proposition for repeal, then, had in its favor the pledge of the Democratic national convention and the attitude of the president. It was also favored, very decidedly, by the fact

¹ Recollections of John Sherman, II, 1189.

² *Ibid.*

³ Colorado, Florida, Georgia, Idaho, Kansas, Nevada, South Carolina and Texas.

⁴ Illinois, Iowa, Michigan, Minnesota, Missouri.

⁵ Colorado, Nevada, South Carolina.

⁶ "We denounce the Republican legislation known as the Sherman Act of 1890 as a cowardly makeshift, fraught with possibilities of danger in the future which should make all of its supporters, as well as its author, anxious for its speedy repeal."

that practically all the business communities now ascribed the trade distress to the operation of the law of 1890. It was in point of fact this last-named influence which ultimately governed the vote upon repeal. In the vote of the House of Representatives, August 28, party lines were obliterated. Nominally, this repeal bill was a Democratic measure pure and simple; yet of the 239 votes cast in its favor, 101 were Republican, while of the 109 votes against it the Democrats cast 73. In reality, however, the vote divided not politically, but geographically. From states east of the Mississippi River and north of Tennessee and the Carolinas, only 15 votes were cast against repeal; this section, therefore, contributed all but 45 of the 239 votes which passed the measure in the House.

With the Senate, the case was widely different. During the Harrison administration, there had been admitted to the Union, from among the frontier territories, six new states: Idaho, Montana, North Dakota, South Dakota, Washington and Wyoming. I shall not here discuss the wisdom or unwisdom of the admission of these territories. The phase of the matter which concerns our present topic is the fact that such additions to the community of states added also twelve members to the Senate, and that these twelve new senators were without exception advocates of free coinage. Applying to the Senate thus enlarged the same geographical test as we have just applied to the House of Representatives, it will be found that the states east of the Mississippi and north of the Carolina border had only 38 votes out of the total 88. In other words, the states whose representatives in the House cast practically all the minority vote against repeal held in the Senate a distinct majority.

A two-months' struggle between the administration and the free-silver-coinage faction in the Senate followed — a struggle marked by unusual bitterness of feeling. Had the bill depended wholly for its support upon the avowed opponents of free coinage, it certainly could not have passed the Senate. But free silver coinage was not the single issue; the platform of the Democratic national convention was invoked in favor of repeal; pressure from all business communities, East and West, was

very strong; and the administration stood out inflexibly. On October 11, after nearly five weeks of debate, in which every kind of dilatory tactics had been employed by opponents of the bill, advocates of repeal forced a continuous session on the Senate, hoping thus to bring about a vote. The effort failed, after forty hours of filibustering. On October 21 a rumor circulated that a compromise, approved by the administration, had been arrived at. The terms of this reported compromise were the continuance of the silver-purchase law until October, 1894, and the coinage of the silver bullion. The president promptly repudiated any such agreement, and the report, having apparently originated in a real misunderstanding, gave rise to great personal bitterness among the senators. The president's announcement served, however, to break the last hope of the opposition. On October 30 the repeal bill passed the Senate by a vote of 43 to 32, 23 of the votes in favor of the measure being Republican.

The president, then, had won this memorable battle. So far, however, as concerned the administration's influence on legislation, it was a Cadmean victory. The vote of both houses on the repeal of the silver-purchase act marked the complete disintegration of the Democratic Party. For once the majority of conservative Republicans had been brought in line to carry through an administration measure. But in the nature of things this achievement was not likely to be repeated. Thenceforward the president and his cabinet had to face not only a Democratic Party honeycombed with bitterest hostility, but a Republican minority which was bound by precedent and principle to take a similar stand in opposition. The vote of Oct. 30, 1893, not eight months after inauguration day, was the last distinct legislative victory won by the administration.

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[*To be continued.*]